

## Message Text

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INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 R

DRAFTED BY EUR/WE:EMROWELL:MS

APPROVED BY EUR - ARTHUR A. HARTMAN

EB - MR. BOEKER

H - MR. STAHNKE

E - MR. ROGERS

TREASURY- MR. SYVRUD

/S/S MR. GAMBLE

----- 018070

O 270012Z NOV 76

FM SECSTATE WASHDC

TO AMEMBASSY LISBON IMMEDIATE

C O N F I D E N T I A L STATE 290133

EXDIS

E.O. 11652: GDS

TAGS: EAID, EFIN, PFOR, PO

SUBJECT: BALANCE OF PAYMENTS ASSISTANCE FOR PORTUGAL

REF: LISBON 7080

1. WE HAVE POUCHED TO LISBON COPIES OF PORTUGUESE ASSIST-  
ANCE PROGRAM APPROVED BY PRESIDENT NOVEMBER 9. YOU MAY  
CONSULT WITH PORTUGUESE GOVERNMENT ON THIS PACKAGE, EMPHA-  
SIZING THAT DISCUSSIONS ARE CONFIDENTIAL PENDING CONCLUSION  
OF CONSULTATIONS WITH CONGRESS AND WITH OTHER POTENTIAL  
PARTICIPANTS IN A MULTILATERAL MEDIUM-TERM ASSISTANCE EFFORT.  
YOU MAY INFORM SOARES THAT IF HE AGREES, WE ARE PREPARED  
TO SEND TREASURY REPS TO LISBON ASAP TO ASSIST IN  
PRESENTATION OVERALL PROGRAM. WE THEN ENVISAGE THAT GOP  
WILL SEND REPRESENTATIVES TO WASHINGTON FOR DETAILED DIS-  
CUSSIONS ON OVERALL PROGRAM AND COMPLETION OF AGREEMENT ON  
FIRST STAGE. FYI TREASURY TEAM TO LISBON WOULD CONSIST  
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OF SYVRUD AND WILLIS. END FYI.

2. THE THREE-STEP FINANCIAL PACKAGE WE ARE CONTEMPLATING  
CONSISTS OF:

- A. A GOLD DEPOSIT ARRANGEMENT WITH ESF WITH CERTAIN UNDERSTANDINGS REGARDING PORTUGUESE ECONOMIC POLICIES (PARA 3 BELOW). TREASURY TEAM CAN DISCUSS DETAILS WITH APPROPRIATE GOP OFFICIALS.
- B. A \$1.5 BILLION MEDIUM-TERM (UP TO TEN YEARS) MULTI-LATERAL CREDIT PACKAGE WITH FUNDS TO BE DISBURSED OVER A TWO-TO-THREE YEAR PERIOD IN ACCORDANCE WITH THE SUCCESS AND NEEDS OF PORTUGAL'S ECONOMIC POLICIES. THIS PACKAGE WOULD INVOLVE A COMPREHENSIVE PORTUGUESE ECONOMIC PROGRAM WORKED OUT AND AGREED WITH THE IMF AND MONITORED BY A CONTINUING IMF MISSION IN LISBON. U.S. PARTICIPATION WOULD REQUIRE CONGRESSIONAL AUTHORIZATION AND APPROPRIATION.
- C. FULL USE OF IMF CREDIT FACILITIES AS SOON AS POSSIBLE.

3. THE FIRST-STEP GOLD-DEPOSIT ARRANGEMENT WOULD BE BASED ON THE ASSUMPTION THAT PORTUGAL WILL IMPLEMENT THE FOLLOWING POLICIES WHICH WE UNDERSTAND THE GOP ALREADY HAS ADOPTED OR PLANS TO ADOPT:

- A. CENTRAL GOVERNMENT BUDGET IN 1977 LEVEL IN NOMINAL TERMS.
  - B. CENTRAL GOVERNMENT 1977 BUDGET DEFICIT TO BE NO RPT NO MORE THAN THE 1976 DEFICIT IN NOMINAL TERMS.
  - C. WITHIN THE TREASURY BUDGET INVESTMENT WILL INCREASE BY AT LEAST TWENTY-FIVE PERCENT IN NOMINAL TERMS.
  - D. NET DOMESTIC BANKING SECTOR FINANCING FOR PUBLIC SECTOR ENTERPRISES AND PUBLIC SECTOR AGENCIES SUCH AS THE SOCIAL SECURITY FUND AND THE SUPPLY FUND WILL NOT EXCEED THE NOMINAL LEVEL OF 1976, AND EFFORTS WILL BE MADE TO DIMINISH CREDIT TO NON-VIABLE ENTERPRISES.
  - E. A MAJOR EFFORT WILL BE STARTED EARLY IN 1977 TO FINANCE  
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- AN INCREASING PORTION OF THE CENTRAL GOVERNMENT DEFICIT FROM NON-BANKING SOURCES.
- F. INTEREST RATES TO BE INCREASED GRADUALLY OVER THE NEXT SIX MONTHS BY TWO TO FOUR PERCENTAGE POINTS, WITH AN IMMEDIATE FIRST INCREASE OF ONE PERCENTAGE POINT. GROWTH OF MONEY SUPPLY TO BE WATCHED CLOSELY.

G. THE FIFTEEN PERCENT LIMIT ON THE "WAGE BILL" INCREASE FOR THE CENTRAL GOVERNMENT TO BE EXTENDED TO THE PUBLIC SECTOR AS A WHOLE.

H. RENT CONTROLS TO BE LIBERALIZED, PRICE CONTROLS ON A NUMBER OF LUXURY PRODUCTS TO BE ELIMINATED IN THE NEXT FEW MONTHS, AND THE GOVERNMENT TO ANNOUNCE IT INTENDS TO TAKE ADDITIONAL SIMILAR ACTION IN THE FUTURE.

4. YOU ALSO SHOULD MAKE THE FOLLOWING ADDITIONAL COMMENTS:

A. WE ARE IMPRESSED BY THE GOP'S DETERMINATION TO STABILIZE ITS ECONOMY AS ONE OF THE MOST EFFECTIVE MEANS TO CONSOLIDATE ITS YOUNG DEMOCRATIC INSTITUTIONS.

B. WE BELIEVE THE PACKAGE OUTLINED ABOVE SHOULD ASSURE THE GOP IT WILL HAVE THE EXTERNAL SUPPORT IT NEEDS UNDER TERMS THAT WILL PERMIT BETTER GOP PLANNING, EASE THE DEBT REPAYMENT SCHEDULE, AND HASTEN THE RETURN OF PRIVATE SECTOR CONFIDENCE AND PRIVATE FINANCING FOR PORTUGAL. THIS COMMENT APPLIES PARTICULARLY TO THE MULTILATERAL MEDIUM TERM LOAN AND THE IMF STAND-BY ARRANGEMENT.

C. U.S. PARTICIPATION IN THE MULTILATERAL MEDIUM-TERM CREDIT WOULD BE SUBJECT TO CONGRESSIONAL APPROVAL. WE INTEND TO REQUEST ABOUT \$550 MILLION WHICH WOULD BE IN ADDITION TO OTHER MEDIUM AND LONG TERM US ASSISTANCE ALREADY OFFERED - -

D. THE U.S. PARTICIPATION WOULD OBVIOUSLY BE PART OF THE TOTAL CONTEXT OF U.S.-PORTUGUESE RELATIONS IN WHICH OUR TALKS TO EXTEND U.S. BASE RIGHTS IN THE AZORES WILL ALSO TAKE PLACE. THIS WOULD NOT PRECLUDE OFFERS OF LIMITED ASSISTANCE IN OTHER SECTORS (MILITARY, AZORES DEVELOPMENT)  
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AT THE CONCLUSION OF AZORES NEGOTIATIONS, BUT WE ASSUME THE PORTUGUESE WOULD BE PREPARED TO ACKNOWLEDGE THE RELATIONSHIP OF THE SUBSTANTIAL NEW U.S. ASSISTANCE WE ARE CONTEMPLATING TO THE AZORES NEGOTIATIONS.

E. WE ARE CONTEMPLATING THE GOLD DEPOSIT ARRANGEMENT AND THE MULTILATERAL CREDIT IN THE EXPECTATION THAT EVENTUALLY PORTUGAL WILL HAVE A FULL STANDBY AGREEMENT WITH THE IMF. ROBINSON

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